



Management Letter

May 10, 2023

To the Honorable County Judge and
Members of the Commissioners' Court of
Polk County, Texas:

The American Institute of Certified Public Accountants Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (SAS 115), provides guidance to auditors on communicating internal control matters to management and the governing body, board of directors, or equivalent body.

It is important to note when reviewing findings reported within this letter that classification of the findings is based on the definitions required by SAS 115 as further discussed below. Please note that these classifications are based on the potential impact to the financial statements, not necessarily the likelihood of actual loss to Polk County, Texas (the "County"). Accordingly, the County's assessment of the "significance" or ranking of severity will likely be substantially different based on a number of factors including, but not limited to, its assessment of risk and the cost benefit of making the change.

Our report is as follows:

In planning and performing our audit of the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of and for the year ended September 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, there is a new pronouncement we wanted to call to your attention and, we identified certain deficiencies in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

CURRENT YEAR MATTERS

Material Weakness

2022.001 JAIL INMATE ACCOUNT

Background

The Sheriff's department maintains a custodial account for monies held for the benefit and use of inmates while detained at the jail for the purposes of making paid phone calls and ancillary purchases. The custodial nature of the account should result in the reconciled bank account balance equaling the individual inmate trust liability. After an inmate is released from the jail the procedure is for the inmate to request the funds from the Sheriff's office and the Sheriff's office would disburse the funds in the form of a check or debit card.

Condition

At year end, the Sheriff's jail inmate bank account could not be reconciled to the corresponding liability account which captures amounts due to individual inmates. The difference between the bank account and inmate liability account was \$43,057 at year end. The Sheriff's inmate bank reconciliation listed deposits in transit which we were unable to validate. Additionally, we noted that subsequent to year end, the bank account was negative resulting in insufficient funds bank charges. In theory, a negative balance could not occur in the account. Our findings initiated a criminal investigation that is presently ongoing. The custodian of the account has reportedly admitted to misappropriation of a portion of the funds. February 2023 and with the information provided it appears that as of that date, the unaccounted difference between the bank account and inmate liability is \$43,560.

Cause

It appears the custodian misappropriated funds which went undetected until the external independent financial statement audit as the County's procedures did not detect the anomaly on the bank reconciliation or disparity between the bank account and related inmate liability account.

Effect

There is a shortage in the jail inmate account as of February 2023 of \$43,560.

Recommendation

After the jail inmate checking account has been reconciled each month, it should be reviewed by a supervisor that is familiar with the proper use of the account and any reconciling items should be validated. Additionally, in conjunction with this step, the reconciled bank balance should be traced and agreed to the individual inmate liability account. The County should continue with its investigation and pursue collection from the custodian and employee dishonesty bond.

Management Corrective Action Plan

The Sheriff's and County Auditor's offices have both implemented dual overlapping procedures to ensure oversight of the account.

Future Matter That May Subsequently Warrant Attention:

New Pronouncement

2022.002 IMPLEMENTATION OF GASB STANDARD NO. 96 – SBITAs

Background

Governmental Accounting Standards Board (GASB) Statement 96, *Subscription-Based Information Technology Arrangements* (SBITAs), is effective for the year ending September 30, 2023 and, accordingly, the County has less than one year to implement GASB 96. GASB 96 defines a SBITA as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 96 essentially requires that all SBITAs should be reported on the balance sheet as a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability, much like GASB 87, *Leases*, accounting for lease transactions. Unlike many new accounting standards, GASB 96 may require preplanning and changes in the way the County does business. Implementation of GASB 96 will generally require centralized document management; in-depth review of SBITA documents; recording and tracking of multiple data points per agreement, which may necessitate new software based on the volume of arrangements; and development of new controls, reconciliations, and policies and procedures.

Recommendation

The County needs to begin making initial assessments immediately to determine the lead time and resources needed. The County needs to identify all SBITAs in which the term initially exceeded 12 months. Based on the aggregate value of SBITAs and materiality, the County should determine a cutoff for exclusion of insignificant arrangements. If the County's number of SBITAs approaches 10, it may be beneficial for the County to procure and implement software to aid in the task. The County should establish the goal of being fully implemented 60 days prior to year end to provide for a sufficient buffer to safeguard against delay in issuing the County's September 30, 2023 financial statements.

We would like to thank the members of Commissioners' Court, the County Judge, and the County's management for their cooperation during the course of our audit. Please feel free to contact us at your convenience to discuss this report or any other concerns that you may have.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas